BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas and Electric Company for authority to update its gas and electric revenue requirement and base rates.	A. 06-12-009
Application of Southern California Gas Company for authority to update its gas revenue requirement and base rates.	A. 06-12-010

PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES

I. INTRODUCTION

On December 8, 2006, San Diego Gas and Electric Company (SDG&E) and Southern California Gas Company (SCG) filed their Test Year (TY) 2008 general rate case (GRC) applications with the California Public Utilities Commission (Commission). SDG&E is seeking a rate increase of $263 million–relative to 2006 authorized levels–for electric distribution ($207 million), gas distribution ($42 million) and electric generation ($13 million). SCG is seeking a rate increase of $184 million--relative to 2006 authorized levels--for gas storage, transmission, and distribution.

Pursuant to Rule 2.6 of the Commission's Rules of Practice and Procedure, the Division of Ratepayer Advocates (DRA) protests these Applications. Since the Applications first appeared in the Commission's Daily Calendar on December 14, 2006, this Protest is timely filed.

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II. BACKGROUND

On August 1, 2006, SCG and SDG&E tendered their 2008 GRC Notice of Intent (NOI) in accordance with the Rate Case Plan. On October 26, 2006, the Commission's Executive Director accepted the tendered documents for filing.

As shown in Table 1, SCG is requesting $1.721 billion in base margin[1] for TY2008, which represents a 12.0% increase relative to the authorized base margin for 2006:

Table 1
SCG is Seeking Over $1.7 Billion in 2008 Base Margin for Gas Storage, Gas Transmission, and Gas Distribution[2]
(in Millions of Nominal Dollars)

Area	SCG's Requested 2008 Base Margin	2006 Authorized Base Margin	$ Increase over 2006 Authorized Base Margin	% Increase over 2006 Authorized Base Margin
Total	$1,721	$1,537	$184	12.0%

As shown in Table 2, SDG&E is requesting $1.406 billion in base margin for TY2008, which represents a 23.0% increase relative to what the Commission authorized for 2006:

Table 2
SDG&E is Seeking Over $1.4 Billion in 2008 Base Margin for Electric Distribution, Electric Generation, and Gas Distribution
(in Millions of Nominal Dollars)

Area	SDG&E's Requested 2008 Base Margin	2006 Authorized Base Margin	$ Increase over 2006 Authorized Base Margin	% Increase over 2006 Authorized Base Margin
Electric Distribution	$934	$727	$207	28.5%
Electric Generation	$214	$201	$13	6.5%
Gas Distribution	$257	$215	$42	19.5%
Total	$1,406	$1,143	$263	23.0%

SCG's proposal would increase a typical residential customer's monthly bill by $2.36 (3.9%), assuming 50 therms of usage. SDG&E's proposal would increase a typical

[1] Base margin is equal to revenue requirement less miscellaneous revenues.

[2] SCG does not provide a breakdown for each of these functional areas.

inland residential customer's monthly winter bill by $2.37 (3.3%) for electricity and $3.86 (7.2%) for gas, assuming 500 kWh and 40 therms of usage, respectively.

SCG and SDG&E are also proposing a framework for Post Test Year (PTY) ratemaking mechanisms to allow for revenue requirement increases from 2009 through 2013, which they state is necessary to allow them to continue providing safe and reliable service to their customers and the opportunity to earn its authorized rate of return.

In the 2004 SCG and SDG&E Cost of Service proceedings, the Commission adopted settlements authorizing: (1) $1.457 billion in base margin for SCG; and (2) $754.8 million in electric base margin and $204.7 million in gas base margin for SDG&E for a total of $959.5 million. (*see* D.04-12-015.)

SCG and SDG&E have identified the following areas in which they expect notable increases in expenses in TY 2008 as compared to base year 2005:

Areas	**SCG ($million)**	**SDG&E ($million)**
Pipeline Integrity	$25	$7
Pensions & Benefits	$20	$64
Gas / Electric Distribution	$18	$25
Generation/SONGS	n/a	$22
Fleet	$13	$11
Field	$12	$10
Customer Education	$9	$10

The areas in which SCG and SDG&E state there were will be notable capital expenditures during the 3-year period from 2006 to 2008 are set forth below:

Areas	**SCG ($million)**	**SDG&E ($million)**
Electric Distribution	n/a	$701
Gas Distribution	$587	$74
Generation	n/a	$565
Engineering	$338	$16
Information Technology	$72	$54
Support Services	$70	$49
Overhead & Escalation	$211	$302

III. DRA'S REVIEW

DRA intends to investigate and analyze fully all aspects of the utilities' requests, and to develop independent forecasts in the following areas: revenues, electric generation, gas and electric distribution, gas transmission and gas storage expenses and plant, administrative and general expenses, depreciation, working cash, etc. DRA is also conducting an audit and evaluating the utilities' post test year ratemaking proposals and performance incentives. DRA will present its estimates, recommendations and findings in its Results of Operations and related reports.

IV. IDENTIFIED RATE CASE ISSUES

The rate increases sought by SCG and SDG&E are substantial. For the test year, SCG is proposing a 12.0% increase compared to its currently authorized 2006 base margin. SDG&E is seeking a 23.0% increase compared to its currently authorized 2006 base margin.

DRA is conducting extensive discovery on the issues raised by these Applications and will make recommendations to the Commission as appropriate. The following is a non-exhaustive list of the issues DRA presently intends to explore. Discovery and analysis may eliminate some of these issue areas and others may arise.

A. Infrastructure Requirements

SCG states that it must replace or upgrade infrastructure when condition and expected reliability warrants. According to SCG, the age and condition of the gas pipeline facilities has led to an increase in capital spending related to replacement of distribution facilities[3] and increased O&M expense related to maintenance. In fact, because of infrastructure replacement activities of others (such as state and local governments), SCG states that it expects O&M expenses related to its locate and mark activities to increase over 2005 levels, and that it also expects distribution capital spending for its pipeline relocations to increase significantly over 2005 levels.

[3] SCG is estimating about $140 million in capital expenditures from 2006-2008 for main and service replacement.

SDG&E faces a similar situation as SCG regarding gas pipelines, but states that it also has to deal with an aging profile of its electric distribution infrastructure. SDG&E states that it has initiated several programs to maintain or improve system reliability[4] for its customers by shortening the duration and reducing the frequency of outages, including: (1) the installation of automation on the distribution system; (2) proactive replacement of aging underground cable and other aging infrastructure; and (3) installation of various sectionalizing equipment. SDG&E states that all of the above will lead to an increase in capital spending and O&M expense associated with underground electric facilities, poles, and substations.

B. Customer Growth

From 2001-2005, SCG added approximately 72,000 new customers per year. The addition of new customers increases the amount of SCG's distribution infrastructure (pipeline mains, services, regulator stations, and meters) that must be installed. According to SCG, this is a major driver of capital spending.[5] Customer growth may also lead to an increase in O&M costs, as more facilities must be maintained. The addition of new customers may increase the demand for services provided by the utility, such as increasing expenses for customer requests for field services, and increases in the volume of inquiries and scheduling of appointments through the Call Center. In 2008, SCG expects to serve about 230,000 more customers than in 2005.

SDG&E expects its customer base for years 2005-2008 to grow at a pace of about 1.5% annually, or approximately 19,000 new electric customers per year and 13,000 new gas customers per year. SDG&E states that each additional customer increases the installation and maintenance demands to SDG&E's electric (e.g., circuits and substations) and gas (pipeline mains, services, and regulator stations) distribution

4 SDG&E is estimating about $130 million in capital expenditures from 2006-2008 for reliability projects.

5 SCG is estimating about $245 million in capital expenditures from 2006-2008 for system expansion.

infrastructure, and is a major driver of capital expenditures[6] and O&M expenses. Customer growth is also a major cost driver of customer service operations.

C. Regulatory and Environmental Requirements

Federal, State, and local agencies can impose new and more stringent operating conditions on utilities such as SCG and SDG&E. There are cost implications associated with complying with such requirements. The utilities give the following examples:

- State agencies are promoting adoption of rules that will impact the requirements for locating and marking of pipeline facilities;
- Federal requirements will demand more frequent observation and evaluation of field workforce skills;
- The Department of Transportation (DOT), through its Pipeline and Hazardous Materials Safety Administration (PHMSA), has issued new regulations governing gas pipeline safety for transmission and distribution. The transmission pipeline integrity rules requires gas utilities to take actions to address integrity concerns before pipeline incidents occur. The capital and O&M costs related to SCG's and SDG&E's pipeline integrity management plans are significant.[7] The PHMSA is also in the process of initiating a rulemaking that would apply pipeline integrity principles to SCG's and SDG&E's distribution system by 2008.
- SCG and SDG&E must comply with new environmental statutes, regulations, and ordinances governing their facilities and operations, such as those affecting the acquisition and operation of its fleet vehicles.[8]

[6] SDG&E is estimating about $180 million in capital expenditures from 2006-2008 for system expansion, and about $110 million for capacity/substation.

[7] Relative to the 2005 base year, SCG is requesting $25 million more in O&M for pipeline integrity in 2008, while SDG&E is requesting $7 million more. In addition, SCG is estimating $150 million in capital expenditures from 2006-2008 for pipeline integrity, while SDG&E is estimating about $2 million over the three years.

[8] Relative to the 2005 base year, SCG is requesting $13 million more in O&M for fleet expenses in 2008, while SDG&E is requesting $11 million more.

D. Workforce Issues

SCG's and SDG&E's workforce issues are tied to training requirements, compensation, and benefits. SCG claims that it will have an increased need to hire and train new and existing employees, in order to maintain a skilled workforce, better serve a growing customer base, maintain its level of expertise as employees retire or leave the company, and be competitive in a tight labor market. SCG states that it must maintain competitive compensation and benefit programs to attract, motivate, and retain employees. The two utilities are also forecasting increases in medical expenses and minimum pension contributions. SDG&E is also requesting a significant increase in post retirement benefits other than pensions (PBOPs) expenses because it states that its retiree population does not benefit from the Medicare Part D savings as much as SCG's retiree population.

The two utilities propose the continuation of the two-way balancing account treatment for pension costs (as adopted in D.04-12-015) and PBOPs. The utilities state that this protects customers and shareholders, since it allows SCG and SDG&E to recover only the required pension contributions and PBOP expenses based on adopted actuarial calculations. Relative to the 2005 base year, SCG is requesting $20 million more in pension and PBOPs expenses in 2008, while SDG&E is requesting $64 million more. DRA intends to evaluate these requests, especially the assumptions used to calculate the pension contribution estimates.

E. Evolving Customer Needs

SCG and SDG&E's evolving customer needs are tied to changes due to increased residential customer diversity and changes in the medium-to-large customer operating environment. The utilities assert that several changes in their customer base—a larger senior population, a more culturally diverse population, and a growing low-income segment—necessitate changes in the nature and composition of the customer services offered and changes in communication channels. SCG and SDG&E are proposing to increase customer awareness and education programs for residential customers. They also anticipate a growing volume of services and communications with larger commercial and industrial customers as they implement public policy mandates that require new program initiatives that impact these businesses. SCG and SDG&E claim that they need new and enhanced programs to encourage their customers' participation to meet ambitious State goals and to assist customers in identifying, developing and implementing energy solutions and process improvements for businesses.

Relative to the 2005 base year, SCG is requesting $12 million more for field (customer service-related) expenses in 2008, while SDG&E is requesting $10 million more.

F. Technological Change

The two utilities state that using modern technology has become an essential part of their utility operations and planning. They claim that advanced technology allows them to better serve customers, increase operating efficiency, maintain and/or increase reliability, and maintain or improve customer service. SCG's and SDG&E's proposals for using advanced technology are primarily addressed in the Information Technology (IT) functional area.[9] IT infrastructure replacements and upgrades (i.e., server replacements) are two of the main drivers of increased IT costs in 2008.

V. OTHER COST DRIVERS

Other cost drivers in these GRC Applications include: (a) Generation Costs Associated with Palomar; (b) Shared Services Expenses; (c) Corporate Center Expenses; (d) Administrative & General Expenses; (e) Working Cash; and (f) Post Test Year Ratemaking. Each is briefly described below.

[9] SCG is estimating about $72 million in capital expenditures from 2006-2008 for information technology projects, while SDG&E is estimating about $51 million. IT-related expenses are primarily part of the Shared Services expenses.

A. Generation Costs Associated with Palomar

For 2008, SDG&E is requesting an additional $17 million in O&M expenses, relative to 2005 levels, for the Palomar Power Plant that was placed into service in mid-2006. SDG&E is also estimating $480 million in capital expenditures for Palomar from 2006-2008.

B. Shared Service Expenses

SCG and SDG&E are subsidiaries of Sempra Energy, which has a number of other affiliates and subsidiaries as well. The utilities are requesting a $41.8 million, or 17.8%, increase in Shared Services[10] expenses in 2008 relative to 2005. The utilities allocate approximately 57% of the shared services expenses to SCG, 36% to SDG&E, and 7% to the Corporate Center. The increase in Shared Services expenses are primarily in the areas of Support Services[11] (e.g., fleet services, real estate and facilities, environmental solutions, and supply management), Administrative and General (A&G)[12], and Information Technology[13].

C. Corporate Center Expenses

As previously stated, SCG and SDG&E are subsidiaries of Sempra Energy, which has a number of other affiliates and subsidiaries. The utilities are requesting over $145.9 million in Corporate Center expenses in 2008. DRA will review and analyze the methodology and assumptions used to allocate Corporate Center expenses to the utilities, to ensure that they are not being allocated a greater share of the Corporate Center expenses than is reasonable.

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[10] Shared Services are defined as those activities performed by functional areas at SCG or SDG&E, which benefit both utilities. The expense figures appearing here are before overhead loadings and escalation.

[11] Support Services accounts for $15.6 million of the $41.8 million increase in Shared Services expenses.

[12] A&G accounts for $8.8 million of the $41.8 million increase in Shared Services expenses. See Section IV.C.

[13] IT accounts for $9.6 million of the $41.8 million increase in Shared Services expenses.

D. Administrative & General Expenses

SCG and SDG&E present their administrative and general (A&G) types of expenses as non-shared[14] and shared[15] costs. Excluding pensions and medical costs, SCG is requesting a $15.2 million, or 10.0%, reduction in non-shared A&G expenses in 2008 relative to 2005. SDG&E is requesting a $29.6 million, or 29.9%, increase in non-shared A&G expenses in 2008 relative to 2005.

E. Working Cash

SCG and SDG&E each include a 2008 forecast of working cash requirements based on balance sheet analyses and lead/ lag studies. DRA intends to analyze in detail the lead/ lag studies to develop its own Working Cash estimate. For example, DRA will explore the lag days for state and federal income taxes.

F. Post Test Year Ratemaking Revenues

SCG and SDG&E seek Commission authorization to file annual advice letters to implement Post Test Year (PTY) revenue requirement adjustments, earnings sharing, and performance indicator rewards/penalties for five years, from 2009 through 2013.

The PTY mechanism would adjust revenue requirements in attrition years by applying separate formulas to the expense- and capital-related revenue requirements. The proposed mechanism represents a change from the mechanism that is currently in place, based on the settlement adopted by D.05-03-023. Based on the proposed PTY

[14] Nonshared services are defined as activities provided by functional areas at one utility or the other, which benefit only the utility performing the activity and do not need to be allocated.

[15] Shared costs are being requested as part of Shared Services or the Sempra Energy Corporate Center. The Corporate Center provides corporate governance, policy direction, and critical control functions, as well as services that are performed most effectively as a centralized operation, such as the investor relations, human resources, legal, finance, property and liability insurance and executive functions. According to the Prepared Testimony accompanying the Applications, in 2008 relative to 2005, the utilities expect Corporate Center expenses allocated to SCG to decrease by $8.066 million, or -10.28%, , and the Corporate Center expenses allocated to SDG&E to increase $7.995 million, or 11.82%. (SCG/SDG&E-15, p. MPH-95.) The Sempra Corporate Center proposes allocating $145,972,000 to the utilities in 2008, about 52% to SDG&E and 48% to SCG.

ratemaking mechanism, SCG estimates a $71 million revenue increase in 2009, while SDG&E estimates a $50 million[16] increase.

In addition, the two utilities propose an annual earnings-sharing mechanism that shares earnings above or below authorized rate of return (ROR) during the 2009-2013 attrition years. Finally, SCG and SDG&E propose the continuance of performance indicators for employee safety and customer satisfaction. SDG&E also proposes the continuance of a performance indicator for electric reliability.

The utilities have proposed some modifications to some aspects of the performance indicators such as targets and rewards in the attrition years in contrast to those previously adopted by the Commission.

VI. CATEGORIZATION OF PROCEEDING

DRA recommends that this proceeding be categorized as "ratesetting."

VII. PROCEDURAL ISSUES

SCG and SDG&E propose a procedural schedule in their Applications that includes evidentiary hearings. DRA agrees that hearings are likely to be needed to resolve the numerous issues raised by these Applications.

SCG and SDG&E suggest that, rather than holding separate sets of evidentiary hearings on Applicants' direct and rebuttal testimony, that the hearings be consolidated. DRA agrees with this proposal whereby Applicants' witnesses testify on both their direct and rebuttal testimony, and then DRA and other intervenors present their witnesses' testimony. This approach was used in the most recent GRCs of Southern California Edison Company and Pacific Gas & Electric Company and is more efficient than the Rate Case Plan process.

Assuming timely responses to data requests, DRA expects to be able to serve its testimony around May 4, 2007. At present, DRA proposes the following schedule:

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16 The $50 million increase comprises a $45 million increase for Electric Distribution, a $3 million *decrease* for Electric Generation, and an $8 million increase for Gas Distribution.

December 14, 2006	Applications Appear on Daily Calendar
January 16, 2007	Protests to Applications Due
January/ February 2007	Pre-hearing Conference
May 4, 2007	DRA Testimony Served
May 18, 2007	Intervenor Testimony Served
June 8, 2007	Applicants' Rebuttal Testimony Served
TBD	Public Participation Meetings
June 14, 2007	Second Pre-hearing Conference
June 18, 2007	Evidentiary Hearings Begin
July 13, 2007	Evidentiary Hearings End
August 10, 2007	Opening Briefs Filed
August 27, 2007	Reply Briefs Filed
September 2007	Update Testimony Filed
September 2007	Update Hearings
November 2007	Proposed Decision
December 2007	Comments on Proposed Decision
December 2007	Reply Comments on Proposed Decision
December 2007	Commission Decision

VIII. CONCLUSION

DRA respectfully recommends that the proceeding be categorized as ratesetting, that a reasonable schedule be set that includes adequate time for evidentiary hearings, and that the scope of the proceeding include, but not be limited to, the issues identified in this Protest.

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Respectfully submitted,

/s/ LAURA J. TUDISCO

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January 12, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing document "**PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES**" in **A.06-12-009 and A.06-09-010**.

A copy was served as follows:

[**X**] **BY E-MAIL**: I sent a true copy via e-mail to all known parties of record who have provided e-mail addresses.

[ ] **BY MAIL**: I sent a true copy via first-class mail to all known parties of record.

Executed in San Francisco, California, on the **12th** day of **January**, **2007**.

/s/ REBECCA ROJO

Rebecca Rojo

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, California 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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